

Partnership Taxation

Introduction

As per sec 195 of the Inland Revenue Act taxable person can be categorized as follows,

- I. Individuals and
- II. Entities
 - Companies
 - Partnership
 - Trust
 - NGO

**For partnership it does not have a separate legal personality. However, for income tax purpose in consider as an entity.*

“Partnership” is an association of two or more individual or corporation carrying on business jointly for purpose of making profit irrespective of whether the association is recorded in writing.

However, partnership where 20 or more of the partners, have limited liability shall be deemed as **Company.*

For the taxation purpose partnership consists of following characteristics,

- Every partnership shall be liable to pay income tax with effect from January 1, 2020 at the rate specified, separately from its partners.
- All the business activities of the partnership are treated as conducted in the course of a single partnership business [Sec .53(6)].
- Assets owned and liabilities by partners in common are treated as owned or owed by the partnership and not by the individual partners.
- Partnership income comprise with partnership business income and partnership investment income.
- Any gain from the realization of investment assets (capital gain) should be taxed separately at the rate of 10%.

- When calculate the partnership *assessable income from business*, following expenses are *shall not deductible*,
 - Interest expenses incurred in respect of loan provide by the partners to the partnership.
 - Expenses incur in respect of the partners salaries and wages. (However salaries paid for active partners can deduct as a expenses)
 - Interest on capital account balance and interest on current account balance
- Interest on drawing should be consider as a business income
- Salaries paid for spouse and children due to the employees in business should consider as a deductible expenses
- The partnership liable to pay tax with respect to the taxable income of the partnership.
- Up to 31.12.2019, each partner's share of the partnership income is subject to withholding tax at the rate of 8% which becomes tax credit to the each partner against their ultimate tax liability.
- Subject to the provisions of IRA, the partnership is allowable to deduct any qualifying payments made during the year of assessment.

Applicable tax rate for the partnership from **01.01.2020**

****If taxable income consists of Gains on realization of investment assets,**

| Taxable Income | Applicable tax rate |
|---|----------------------------|
| Gain from the realization of investment assets (capital gain) | 10% |
| Balance Taxable Income Not exceeding Rs.1,000,000 | 0% |
| Exceeding Rs.1,000,000 6% on the excess of Rs.1,000,000 | 6% |

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Question 01

Mr. A and Mr. B are equal partners in a partnership. For the year of assessment 2022/2023, the partnership has business income of Rs.20 million and rent income of Rs.500,000 received.

Calculate tax payable by partnership & Mr. A.

Question 02

A and B is equal partners in the AB partnership. A and B received monthly salary of Rs.10,000 and Rs.15,000 respectively. In addition to the capital A has provided Rs. 2,000,000 loan facility to the partnership at 10% annual interest. Calculated accounting profit was Rs.2,200,000. (this profit of Rs. 50,000 include gain on disposal of land and deducted above expenses).

That disposed land purchase as at 01/10/2018 at a cost of Rs.700,000 and disposed for Rs.1,000,000 during the year of assessment 2023/24. When selling the land following expenses have incurred,

| | |
|------------------------------------|-------------|
| Advertisement cost to find a buyer | -Rs.50,000 |
| Broker fees | - Rs.20,000 |

Required:

Calculate the tax liability of the AB partnership for the Y/A 2023/24.

